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RUEHME/AMEMBASSY MEXICO CITY 0838
RUEHMN/AMEMBASSY MONTEVIDEO 2726
RUEHLP/AMEMBASSY LA PAZ 3835
RUEHSG/AMEMBASSY SANTIAGO 2424
RUEHRI/AMCONSUL RIO DE JANEIRO 8755
RUEHRG/AMCONSUL RECIFE 4134
RHEHNSC/NSC WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/USDOC WASHDC 3111
RHMFISS/CDR USSOUTHCOM MIAMI FL
RUEAIIA/CIA WASHDC
RHMCSUU/FAA NATIONAL HQ WASHINGTON DC
RUEAYVF/FAA MIAMI ARTCC MIAMI FL
RULSDMK/DEPT OF TRANSPORTATION WASHDC
RUEHC/DEPT OF LABOR WASHDC

UNCLAS SECTION 01 OF 03 SAO PAULO 000301

SENSITIVE
SIPDIS

STATE FOR WHA/EPSC AND EEB/TRA - TROBL, YVLIMAYE-DAVIS
STATE PASS USTR FOR KATE DUCKWORTH
FAA FOR BAHUMADA, CTFRANCESCHI
DEPT OF TRANSPORTATION FOR BHEDBERG
BUENOS AIRES FOR TSA ATTACHE
MEXICO CITY FOR TSA ATTACHE MGALVAN
NSC FOR GTOMASULO
TREASURY FOR JHOEK
SOUTHCOM FOR POLAD
USAID FOR LAC/AA

E.O. 12958: N/A

TAGS: [EAIR](#) [PREL](#) [PGOV](#) [ECON](#) [EINV](#) [BEXP](#) [BR](#)

SUBJECT: U.S. AIRLINES DIFFER AHEAD OF BILATERAL NEGOTIATIONS

SENSITIVE BUT UNCLASSIFIED--PLEASE PROTECT ACCORDINGLY

REF: A) SAO PAULO 090; B) BRASILIA 0222

11. (SBU) SUMMARY: U.S. aviation companies are of a mixed mind about expanded passenger routes between the United States and Brazil. On the one hand, rising fuel prices and a tightening market globally are weighing on the business decisions of the four U.S. carriers operating in Brazil (American, Delta, United, Continental). On the other hand, supply and demand fundamentals are out of balance, with passenger demand for flights to the U.S. at an all time high and some U.S. carriers reporting that their seats are sold out well in advance. ConGen Sao Paulo contacts with the U.S. carrier local representatives reveal that they are not likely to speak with a unified voice ahead of the bilateral negotiations scheduled for June 24-25. END SUMMARY.

DELTA POISED TO EXPAND

12. (SBU) Of the three airlines' local representatives ConGen Sao Paulo has spoken to in recent weeks, Delta Airlines appears best positioned to seize on additional frequencies to the North and Northeast of Brazil. Luiz Henrique Teixeira, Delta's Country Manager for Brazil, told the Consul General that Delta is prepared to begin operating flights to Manaus and Fortaleza with available Boeing 757 aircraft. Teixeira reported that Delta's headquarters has agreed to the plan for five weekly flights Manaus-Atlanta and three weekly Fortaleza-Atlanta. Delta envisions eventual onward flights from Manaus to Brasilia.

13. (SBU) In addition to Sao Paulo and Rio de Janeiro, Delta is focusing on the following cities in order of priority: Manaus, Fortaleza, Salvador, Recife, Brasilia, Curitiba and Belo Horizonte. Because Delta only has 757's available right now for new routes, Manaus and Fortaleza are most realistic in the short-term. Teixeira said that Delta has been in touch recently with the governors of Amazonas (Manaus), Ceara (Fortaleza), Pernambuco (Recife), and Bahia (Salvador) to encourage them to take an active role in encouraging Brazil's National Civil Aviation Agency (ANAC) to agree to additional frequencies to their respective states. Teixeira expressed concern, however, about rumors he has heard that the negotiations will result in USDOT earmarking any new frequencies for low-cost carriers.

14. (SBU) Longer haul flights would require a 767 or 777, which would have to be taken from existing routes. Delta's country office recognizes that this would require negotiating with Delta's headquarters, but the country office envisions twice-daily Rio-Atlanta flights year-round in the future. Also prominent on Delta's wish-list are direct flights to Orlando from Brazilian cities, as New York and Orlando are Delta's two most profitable destinations.

AMERICAN & UNITED CAUTIOUS

15. (SBU) American Airlines (AA) and United Airlines (UAL) told the
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Consul General that high fuel prices and the general feeling of crisis in the U.S. aviation market translates into less opportunities for their companies in Brazil. UAL's General Manager for Latin America, Josue Meza, said that if negotiations succeed in obtaining additional frequencies for U.S. carriers, it would be a "tough decision" for UAL to dedicate additional aircraft to Brazil. (Note: In the event that UAL's situation globally changes, their priority cities in Brazil, in order of importance, would be: Sao Paulo, Rio, Belo Horizonte, and Porto Alegre. End Note.) Given the growing demand for flights, and the Brazilian market's role as UAL's most important in Latin America, UAL is planning to expand their service by making the non-stop Rio-Dulles permanent by September and upgrading the aircraft for the Sao Paulo-Dulles route to a 777. This will expand UAL's service by 67 percent, adding 300 additional seats a day, without increasing frequencies or aircraft.

16. (SBU) AA's Country Manager Erli Rodrigues told Econoff that "with fuel prices so desperate, American globally is looking to take drastic measures. The timing of the negotiations is difficult unless the route is really appealing." (Note: Rodrigues told Econoff that American's headquarters will be sending the Department of Transportation a letter outlining their position on the negotiations in the coming days. End Note.)

CODE-SHARING

17. (SBU) On code-sharing, UAL noted that they are pleased with their current code-share arrangements with TAM and are hopeful that TAM will join the Star Alliance. Delta's Teixeira told the Consul General that he expects by the end of 2008 that Delta will have code-sharing with Varig and that Varig will be a member of the Sky Team (of which Continental is also a member). If these negotiations proceed as expected, American would be the one U.S. carrier that does not have a code-share or alliance arrangement in place or under negotiation with a Brazilian carrier.

VISAS

18. (SBU) The transit visa issue is one that weighs equally on the U.S. and Brazilian carriers. United told the Consul General that given UAL's expansion into the Asian market, the transit visa is

problematic. Delta noted the issue as a consideration, but said that they are still eying Brazil-to-Asia passengers. In fact, Teixeira noted that there are four new Chinese factories going into Manaus and Delta is envisioning linking passengers Manaus-Atlanta-Shanghai.

GUARULHOS PARKING DISPUTE STILL ALIVE

¶9. (SBU) With regards to the Guarulhos airport parking fee dispute (REF B), UAL said that while the issue still remains unresolved, it has "calmed down." Delta's Teixeira said that none of the airlines are "comfortable with where things are" and said that ANAC appears to be in waiting mode. Teixeira said that ANAC was planning to visit IATA in the coming weeks to look at best practices for

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handling airport congestion. Teixeira said that ANAC's Director Solange Vieira recently told the industry that no definitive decision should be expected before September or October when complete fare deregulation for flights to Europe and the U.S. is expected to come into effect. (Note: This will be the third extension of ANAC's own deadline. Initially a decision was expected by March, then extended to May. End Note.)

¶10. (SBU) Of the three carriers ConGen Sao Paulo contacted, American Airlines expressed the most frustration with ANAC's delay in resolving the dispute. Rodrigues told Econoff: "Although indications are that [the proposed drastic fee increase] is not going to happen, we are not going to talk about new investments with something like that still in the air. We need a decision from ANAC."

COMMENT

¶11. (SBU) Based on our discussions locally, Delta appears to be the only U.S. airline in a position to take quick advantage of eventual new routes to the North and Northeast. UAL is expected to concentrate on adding seats by upgrading their service on existing routes, but is not likely to seize on new opportunities. The timing is inauspicious for American to seize on additional routes, and American is the only one of the four that does not have a code-share or alliance arrangement in place or under negotiation with a Brazilian carrier. American's current commanding position as the lead U.S. carrier in Brazil, coupled with the fact that they are in a difficult situation globally, may mean that AA stands to gain the least from adding additional frequencies at this juncture. It is noteworthy that the airline that is most outspoken on the parking issue is also the one that currently is least prepared to take advantage of increased liberalization. END COMMENT.

¶12. (U) This cable was cleared by and coordinated with the Embassy in Brasilia.

WHITE